

HISTORY INDEX FOR CASE: 2000-189
KENTUCKY-AMERICAN WATER COMPANY
Financing
PARTICIPATION IN BORROWING PROGRAM

IN THE MATTER OF THE APPLICATION OF KENTUCKY-AMERICAN WATER
COMPANY FOR APPROVAL OF PARTICIPATION IN BORROWING PROGRAM

SEQ NBR	ENTRY DATE	REMARKS
0001	04/20/2000	Application.
0002	04/24/2000	Acknowledgement letter.
M0001	05/05/2000	LINDSEY INGRAM KENTUCKY-AMERICAN-CONFIRM TELEPHONE CONVO ADVISING APPLICATION WILL NOT BE W
0003	05/11/2000	No deficiencies letter
M0002	05/12/2000	LINDSEY INGRAM/KAWC-AMENDED APPLICATION
M0003	05/16/2000	DAVID SPENARD AG-MOTION TO INTERVENE
0004	05/22/2000	Order granting motion of Attorney General to intervene.
M0004	05/31/2000	DAVID SPENARD/AG-INITIAL REQUEST FOR INFORMATION BY AG
0005	06/23/2000	Order entered, info due 7/3, extends 30 days, Order now due 7/24/00.
M0005	07/03/2000	LINDSEY INGRAM, JR. KY-AMERICAN-RESPONSE TO THE AG'S DATA REQUESTS
M0006	07/06/2000	ATTORNEY GENERAL-NOTICE REGARDING THE APPLICATION
0006	07/11/2000	Order entered; this matter stands submitted on the existing record.
0007	07/21/2000	Final Order giving authorization to enter into the Agreement with AWCC, etc.
M0007	04/16/2001	HERBERT A. MILLER, JR/KY-AMERICAN-REPORT ON LONG-TERM INDEBTEDNESS

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

RECEIVED

APR 16 2001

REPORT ON LONG-TERM
INDEBTEDNESS FOR
KENTUCKY-AMERICAN WATER COMPANY

Case No. 2000-189
PUBLIC SERVICE
COMMISSION

* * * * *

Pursuant to Case No. 2000-189 dated July 21, 2000, Kentucky-American Water Company (the "Company") was authorized to periodically issue securities in the form of notes or debentures for the purpose of refunding/refinancing certain outstanding debt in the aggregate principal amount of \$41,500,000. For indebtedness exceeding two years, the Commission required Kentucky-American to file a report detailing the terms and conditions of the particular securities and an analysis showing that the interest rate was the most reasonable under the circumstances at the time of issuance.

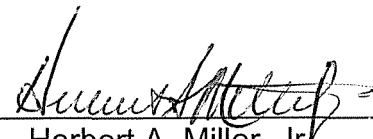
On March 29, 2001, American Water Capital Corp., a wholly-owned subsidiary of American Water Works Company, issued \$140 million of senior unsecured notes carrying an interest rate of 6.87% and maturing on March 29, 2011. The terms of the issue include annual sinking fund payments of \$28 million starting in year six. The sinking fund payments give the issue an eight-year average life. Simultaneously with the issuance and sale of securities by American Water Capital Corp., the Company borrowed \$15.5 million from American Water Capital Corp. in exchange for the issuance to Capital Corp. of the Company's unsecured note in the principal amount of \$15.5 million with an interest rate, maturity and all other terms identical to the corresponding terms of the aforesaid notes of Capital Corp., including a proportionate share of the

sinking fund obligations. All of the funds borrowed by the Company from American Water Capital Corp. were used to reduce the outstanding balance of the Company's short-term debt.

On April 11, 2001, Credit Suisse/First Boston issued a detailed analysis of the terms, conditions, pricing and marketing of the debt issuance by American Water Capital Corp. A copy of said analysis is attached and incorporated by reference, along with a copy of the promissory note.

Respectfully submitted,

KENTUCKY-AMERICAN WATER COMPANY
2300 Richmond Road
Lexington, Kentucky 40502
859-268-6339

By: 
Herbert A. Miller, Jr.
Vice President and Secretary

Attachment

PROMISSORY NOTE
FOR LONG-TERM BORROWINGS

\$15,500,000

March 29, 2001

FOR VALUE RECEIVED, Kentucky-American Water Company, a Kentucky corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of Fifteen Million Five Hundred Thousand (\$15,500,000), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

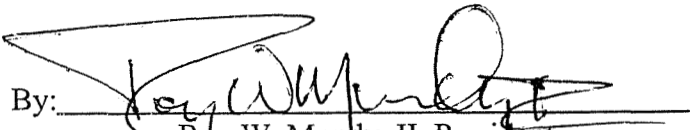
If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

KENTUCKY-AMERICAN WATER COMPANY

By: 
Roy W. Mundy, II, President

Confidential

AMERICAN WATER CAPITAL CORP.

US\$140,000,000 6.87% Senior Notes due March 29, 2011

APRIL 11, 2001

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- I. Summary Terms and Conditions
- II. Pricing and Market Conditions
- III. Private Placement Offering

I. SUMMARY TERMS AND CONDITIONS

Nine American Water Works Company, Inc. subsidiaries obtained an intra-company loan from American Water Capital Corp. ("AWCCs") following AWCCs private placement of US\$140,000,000 Senior Secured Notes due 2011 (the "Placement") on March 29, 2001. The summary terms and conditions of the Placement are outlined below.

I. PARTIES

Issuer	American Water Capital Corp. (the "Issuer"), under a Support Agreement from American Water Works Company, Inc. (the "Parent")
Purchasers/Type of Offering	Private placement with U.S. institutional investors in accordance with Section 4(2) of the Securities Act of 1933

II. ISSUE

Issue	\$140 million of 6.87% Senior Notes due 2011 (the "Notes")
Price	100% of principal amount
Maturity/Average Life	10-yr final/8-year average life
Amortization	Semi-annual equal principal payments beginning at the end of year 6
Security/Ranking	None - the Notes will rank equal in right of payment with all unsubordinated indebtedness of the Issuer and will benefit from the Support Agreement to the same extent.
Anticipated Rating	Baa1/BBB+
Closing Date	March 29, 2001
Optional Redemption	The Notes will be callable at any time, at the option of the issuer, in whole or in part, at a price equal to the greater of par and the present value of the future debt service on the notes, discounted at the then current yield on U.S. Treasury securities of a maturity comparable to the remaining weighted average life of the Notes plus 50 basis points (the "Make-Whole Price").
Defeasance	None
Affirmative Covenants	Customary for the type of transaction proposed
Negative Covenants	As described in Form S-3 filed by the Issuer and the Parent with the Securities and Exchange Commission on January 30, 2001, including without limitation <ul style="list-style-type: none"> - Limitation on Mergers and Sales of Substantially All Assets - Limitation on Secured Indebtedness/Negative Pledge

Financial Covenants	None
Support Agreement	<p>The Notes are being issued under a Support Agreement by and between the Issuer and the Parent pursuant to which the Parent has agreed, for the benefit of the holders of the Notes and other debt securities of the Issuer, to</p> <ul style="list-style-type: none">- retain all of the voting stock of the Issuer, free and clear of any lien, security interest or other charge or encumbrance,- cause the Issuer to have at all times a positive tangible net worth (total assets less liabilities less intangible assets), as determined in accordance with GAAP, and- make certain liquidity provisions.
Events of Default	Customary for the type of transaction proposed
Documentation	The Note Purchase Agreement will be governed by New York law and the covenants will substantially mirror the language of the Indenture filed with the previously mentioned Form S-3.
Counsel	Chapman and Cutler, with reasonable fees and disbursements of such counsel to be borne by the Issuer.

II. PRICING AND MARKET CONDITIONS

Pricing Rationale

The spread for the Notes was determined after consideration of 2 comparable public utility issues by US gas companies:

Issuer	Amount (US\$mm)	Coupon	Maturity	Moody's	S&P	Spread to UST ₁₀
Nisource	1,000	7.875	11/15/10	Baa2	BBB	+180
Keyspan Corporation	700	7.625	11/15/10	A3	A	+150

CSFB Debt Capital Markets (public issues) indicated that a new 10-year issue for American Water Capital Corp. would be priced at approximately 180bps over the yield on the 10-year on-the-run US Treasury security. To reflect an appropriate private placement (illiquidity) premium, the authorized price talk during the marketing phase was 195bps over the 10-year on-the-run US Treasury for a security with a 10-year final maturity and 8-year average life. The transaction was executed at that level.

Additional Comparable Public Issues

Issuer	Amount (US\$mm)	Coupon	Maturity	Moody's	S&P	Spread as of 04/09/01
MidAmerican Funding LLC	200	6.750	03/01/11	Baa1	BBB+	+195
Progress Energy	1,250	7.100	03/01/11	Baa1	BBB	+178
Xcel Energy	600	7.000	12/01/10	A3	BBB+	+185
Energy East Corporation	200	8.050	11/15/10	Baa1	BBB+	+235
NSTAR	300	8.000	02/15/10	A2	BBB+	+220

Treasury Yield at Time of pricing

The Notes were priced on Monday March 12th, 2001 at 3.03pm. The on-the-run 10-year US Treasury (5.00% due February 2011) was yielding 4.92%, the agreed spread to Treasuries was 195 bps, therefore the coupon for the bonds was 6.87%.

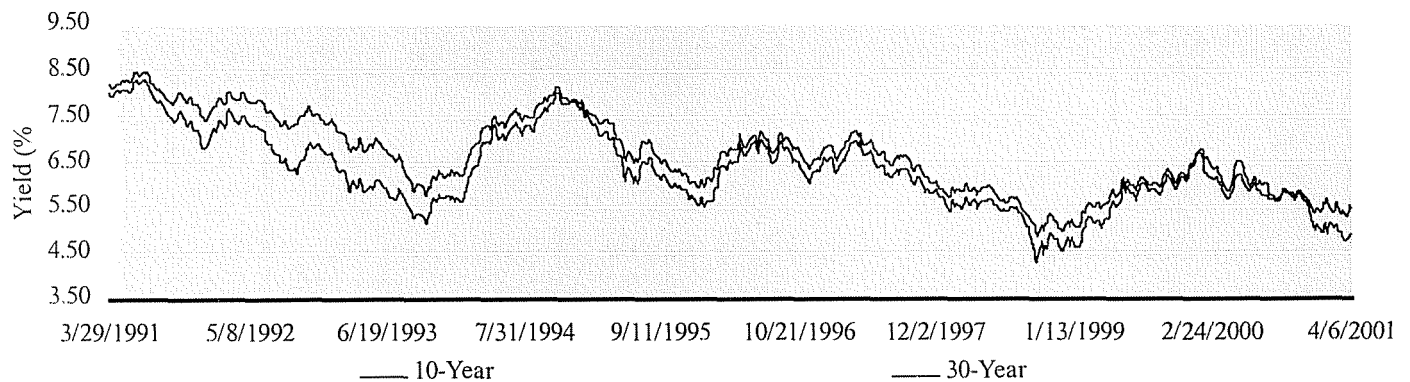
II. PRICING AND MARKET CONDITIONS (CONT.)

Theoretical Pricing for American Water Works Company Subsidiary Issues

In our opinion, hypothetical stand alone 10-year maturity, 8-year average life offerings by American Water Works Company subsidiaries would have an indicative weighted average pricing level over the 10-year on-the-run US Treasury security of approximately 201bps.

The subsidiaries would generally price wider than the American Water Capital Corp. issue reflecting their overall lack of geographic diversity and relatively small issue sizes (implying a greater illiquidity premium).

Historical US Treasury Yields



III. PRIVATE PLACEMENT OFFERING

Marketing Process

Marketing commenced on March 5, 2001. 12 accounts were contacted on March 5-6 and asked for indications by Friday, March 9, 2001 with respect to an issue of \$100mm. Firm indications for \$150mm were received by March 9, 2001 and an issue of \$140mm was circled and priced on March 12 at $UST_{10} + 195$ basis points. Please see list below for details of offering process.

Indications		Declines	
Institution	US\$ million	Institution	Reason
Northwestern Mutual	55	American General	Lack of covenants
Nationwide Insurance	35	Guardian Life	Price/yield
Lincoln National	20	ING Investment Management	Timing issues
New York Life	15	Principal Capital Management	Price/yield
Allstate Insurance Company	<u>15</u>	SunAmerica Investments	Price/lack of covenants
Subtotal	140	Teachers Insurance	Price/structure
Travelers Insurance*	<u>10</u>		
Total Indications	150		

* Travelers indicated for \$10mm of a 10-year bullet structure at same pricing as the offered 10/8 issue ($T_{10} + 195$); however, American Water Works declined to create a separate tranche because of the additional time, effort and expense that would be required to replicate the on-lending arrangements with subsidiaries.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 2000-189
KENTUCKY-AMERICAN WATER COMPANY

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on July 21, 2000.

Parties of Record:

Honorable Herbert A. Miller
Attorney for Company
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY. 40502

Honorable Lindsey Ingram
Attorney at Law
Stoll, Kennon & Park, LLP
201 East Main Street
Suite 1000
Lexington, KY. 40507 1380

Honorable David E. Spenard
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY. 40601 8204

Stephanie J. Bell

Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF)	
KENTUCKY-AMERICAN WATER)	
COMPANY FOR APPROVAL OF)	CASE NO. 2000-189
PARTICIPATION IN)	
BORROWING PROGRAM)	

O R D E R

On May 5, 2000, Kentucky-American Water Company ("Kentucky-American") filed an application for Commission approval to participate in a borrowing program. This program has been made available to Kentucky-American through its parent corporation, American Water Works Company, Inc. ("American Water Works"). As a participant in the program, Kentucky-American must enter into a Financial Services Agreement with American Water Works Financing Corporation. On May 12, 2000, Kentucky-American amended its application to reflect the change in the name of American Water Works Financing Corporation to American Water Capital Corporation ("AWCC").

Kentucky-American seeks to enter into this agreement in conjunction with each of American Water Works' subsidiaries as well as American Water Works. It is anticipated that AWCC could obtain more advantageous funding for the individual participants by utilizing the borrowing power and combined borrowing efficiency of all of the participants in the borrowing program.

AWCC, a wholly owned subsidiary of American Water Works, will obtain its funds primarily from two sources. It will arrange for a syndicated bank credit line to provide short-term loans and it will register its own debt securities for sale in the public market by filing a shelf registration with the United States Securities and Exchange Commission. Based on estimated borrowing requirements provided by each program participant for the coming year as well as future needs, AWCC will arrange borrowing commitments and borrowing programs to provide funds necessary to meet those requirements.¹

As a participant in the borrowing program, Kentucky-American will obtain short-term and long-term loans from AWCC. Kentucky-American expects to periodically issue, prior to December 31, 2005, securities in the form of notes or debentures for the purpose of refunding/refinancing certain outstanding debt in the aggregate principal amount of \$41,500,000. Kentucky-American also intends to borrow funds from AWCC to finance its construction program and the acquisition of other utility systems.

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that:

1. Kentucky-American's entry into the Financial Services Agreement and participation in the borrowing program with AWCC is for a lawful object within the corporate purposes of its utility operation, is necessary and appropriate for and consistent with the

¹ For a complete description of the financial arrangements between AWCC and the American Water Works subsidiaries who are parties to the Financial Services Agreement and who participate in the borrowing program and the benefits that these arrangements confer, see Illinois-American Water Company, Docket No. 00-0306 (Ill. C.C. May 18, 2000) at 2-5.

proper performance of the utility's service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes.

2. Kentucky-American's proposed issuance of securities in the form of notes or debentures in an aggregate amount of \$41,500,000 for the purpose of refunding/refinancing existing short-term and long-term debt is reasonable and consistent with the performance of its service to the public and should be approved.

3. The specific terms and conditions of each issuance under the borrowing program set forth in the Agreement are not known at this time. Therefore, Kentucky-American should be required to inform the Commission of the terms and conditions of each issuance covered by the borrowing program.

4. Kentucky-American should obtain Commission approval prior to the issuance of any security or long-term evidence of indebtedness not specifically set forth in its application and included in the \$41,500,000 refunding/refinancing.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is authorized to enter into the Financial Services Agreement with AWCC and to participate in its borrowing program.

2. Kentucky-American is authorized to issue securities in the form of notes or debentures in an aggregate amount of \$41,500,000 from time to time prior to December 31, 2005 for the purpose of refunding/refinancing existing short-term and long-term debt.

3. The proceeds from the financing authorized herein shall be used only for the lawful purposes set out in the application.

4. For all securities or evidences of indebtedness that have a term exceeding 2 years and that are issued under the Financial Services Agreement's borrowing program, Kentucky-American shall file a report detailing the terms and conditions of the particular securities issued. Kentucky-American shall include an analysis showing that the interest rate for the securities was the most reasonable under the circumstances at the time of issuance. This report shall be filed with the Commission within 10 days of the completion of the issuance.

5. Kentucky-American shall obtain approval from the Commission prior to the issuance of any security or long-term evidence of indebtedness not specifically identified in its application and included in the \$41,500,000 refunding/refinancing approved herein.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

Done at Frankfort, Kentucky, this 21st day of July, 2000.

By the Commission

ATTEST:

W. H. Bowler
Deputy Executive Director



Paul E. Patton, Governor
Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Martin J. Huelsmann
Executive Director
Public Service Commission

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B. J. Helton
Chairman

Edward J. Holmes
Vice Chairman

Gary W. Gillis
Commissioner

July 11, 2000

Honorable Herbert A. Miller, Jr.
Attorney at Law
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

Honorable Lindsey W. Ingram, Jr.
Attorney at Law
Stoll, Keenon & Park, LLP
201 East Main Street, Suite 1000
Lexington, Kentucky 40507-1380

Honorable David E. Spenard
Assistant Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40601-8204

RE: Case No. 2000-189

We enclose one attested copy of the Commission's Order in the
above case.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF)	
KENTUCKY-AMERICAN WATER)	
COMPANY FOR APPROVAL OF)	CASE NO. 2000-189
PARTICIPATION IN)	
BORROWING PROGRAM)	

O R D E R

On May 5, 2000, Kentucky-American Water Company ("Kentucky-American") filed an application for Commission approval to participate in a borrowing program.

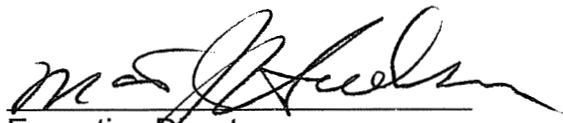
On May 31, 2000, the Attorney General of Kentucky ("AG") filed a request for information. Kentucky-American filed its response to the AG's data request on July 3, 2000. A notice has been filed that the AG does not require a hearing in this case.

Being sufficiently advised, the Commission HEREBY ORDERS that this matter stands submitted to the Commission on the existing record.

Done at Frankfort, Kentucky, this 11th day of July, 2000.

By the Commission

ATTEST:


Executive Director

Commonwealth of Kentucky
Before the Public Service Commission

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JUL 06 2000
PUBLIC SERVICE
COMMISSION

In the Matter of:)
THE APPLICATION OF KENTUCKY-AMERICAN) Case No. 2000-189
WATER COMPANY FOR APPROVAL OF)
PARTICIPATION IN BORROWING PROGRAM)

NOTICE REGARDING THE APPLICATION

The Attorney General provides the following Notice Regarding The Application in this case.

1. The Office of the Attorney General is in receipt of the responses of Kentucky-American Water Company to the Attorney General's data requests.
2. This Office has no further data requests in this proceeding.
3. The Office does not request an informal conference or a public hearing in this proceeding.
4. While the Attorney General reserves the right to fully participate in any further action in this proceeding, the Office has no objection to the submission of the Application to the Commission for a decision based upon the existing record.

WHEREFORE, the Attorney General provides this Notice Regarding The Application.

Respectfully submitted,

A.B. CHANDLER III
ATTORNEY GENERAL
David Edward Spenard
David Edward Spenard
Assistant Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40601-8204
502-696-5453
(FAX) 502-573-8315

Notification of Filing and Certificate of Service

Counsel certifies that an original and ten photocopies of this Notice Regarding The Application were served and filed by hand delivery to Martin Huelsmann, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to Herbert A. Miller, Kentucky-American Water Company, 2300 Richmond Road Lexington, Kentucky 40502 and Lindsey W. Ingram, Jr., Stoll, Kennon & Park, LLP, 201 East Main Street Suite 1000, Lexington, Kentucky 40507 1380, all on this 6th day of July, 2000.

David Edward Spenard
Assistant Attorney General

STOLL, KEENON & PARK, LLP

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July 3, 2000

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TODD S. PAGE
JOHN B. PARK
PALMER G. VANCE II
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WILLIAM L. MONTAGUE, JR.
KYMBERLY T. WELLONS
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WALLACE MUIR (1876 - 1947)
RICHARD C. STOLL (1876 - 1949)
WILLIAM H. TOWNSEND (1890 - 1964)
RODMAN W. KEENON (1882 - 1966)
JAMES PARK (1892 - 1970)
JOHN L. DAVIS (1913 - 1970)
GLADNEY HARVILLE (1921 - 1978)
GAYLE A. MOHNEY (1906 - 1980)
C. WILLIAM SWINFORD (1921 - 1986)
ROBERT F. HOULIHAN (1918 - 1999)

LESLIE W. MORRIS II
LINDSEY W. INGRAM, JR.
WILLIAM L. MONTAGUE
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BENNETT CLARK
WILLIAM T. BISHOP III
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ROBERT W. KELLERMAN*
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J. DAVID SMITH, JR.
EILEEN O'BRIEN
DAVID SCHWETSCHENAU
ANITA M. BRITTON
RENA GARDNER WISEMAN
DENISE KIRK ASH
BONNIE HOSKINS
C. JOSEPH BEAVIN
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LARRY A. SYKES
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PERRY MACK BENTLEY
MARY BETH GRIFFITH
DAN M. ROSE
GREGORY D. PAVEY
J. MEL CAMENISCH, JR.
LAURA DAY DELCOTTO
LEA PAULEY GOFF***
CULVER V. HALLIDAY***
DAVID E. FLEENOR
JAMES D. ALLEN

Via Hand Delivery

Martin J. Huelsmann, Jr., Esq.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: Kentucky-American Water Company
Application for Approval of Participation in Borrowing Program
Case No. 2000-189

Dear Marty:

The original and seven copies of the responses of Kentucky-American Water Company to the Attorney General's data requests are enclosed for filing.

Very truly yours,

STOLL, KEENON & PARK, LLP

By

Lindsey

Lindsey Ingram, Jr.

/s/

Encs.

cc w/enc.: David E. Spenard, Esq.
[Via Hand Delivery]

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

FILED
JUL 03 2000
PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)
)
KENTUCKY-AMERICAN WATER COMPANY) ADMINISTRATIVE
APPLICATION FOR APPROVAL OF) CASE NO. 2000-189
PARTICIPATION IN BORROWING PROGRAM)

**RESPONSES OF KENTUCKY-AMERICAN WATER COMPANY
TO ATTORNEY GENERAL'S DATA REQUESTS**

Comes Kentucky-American Water Company, by counsel, and for its responses to the data requests from the Attorney General states as follows:

1. Michael A. Miller, Vice President and Assistant Treasurer of Kentucky-American Water Company or Joseph F. Hartnett, Vice President and Treasurer of American Water Capital Corp., are the individuals who have prepared the answers to the data requests and will be available as may be required in this matter.

2. That it objects to so much of the instructions in the data requests propounded by the Attorney General as enlarges the obligation of Kentucky-American Water Company to respond to the data requests beyond that required by statutes and regulations.

1. With regard to American Water Works Financing Corporation (AWWFC), currently incorporated as a Delaware corporation and wholly owned by American Water Works Company, Inc. (AWWC), please provide the following information:

A. An overall organization chart showing the organizational, functional and line relationships between AWWFC, AWWC, all utility subsidiaries of AWWC, and all other subsidiaries of AWWC.

Response: By its Amended Application filed herein on May 12, 2000, Kentucky-American Water Company stated that the corporation with which it proposed to enter into the Financial Services Agreement had been organized and its name was

American Water Capital Corp. (AWCC). Attached hereto and marked Exhibit 1 is an organizational chart that demonstrates the relationship of American Water Works Company, Inc., American Water Capital Corp. and the affiliates that have requested participation in the relationship.

- B. A detailed organization chart of AWWFC showing each of the officer's and top management positions and offices, internal departments, and total number of employees by employee category.

Response: The officers of AWCC are:

Ellen C. Wolf	President
Joseph F. Hartnett	Vice President and Treasurer
W. Timothy Pohl	Vice President and Secretary
Robert D. Sievers	Vice President and Comptroller
Edward D. Vallejo	Vice President and Assistant Treasurer

There are no employees of AWCC, its activities will be performed by employees of American Water Works Service Company, Inc. (AWWSC) who will charge their time for AWCC activities directly to AWCC at cost. These employees will perform duties for AWCC as needed in the areas of daily cash management, short-term debt instruments, and long-term debt instruments to meet the financing needs of the participating affiliates.

- C. A balance sheet showing the major assets and liabilities of AWWFC, and AWWFC's equity funds in dollars and as a percentage of total capitalization.

Response: AWCC has no assets and liabilities at this time. It will be issuing debt instruments based upon the support agreement of the parent company. After activities commence under the AWCC arrangement there will be assets and liabilities related to the debt instruments and associated affiliate receivables.

- D. A description of the ownership and ownership percentages of AWWFC.

Response: AWCC is a wholly-owned subsidiary of American Water Works Company, Inc.

2. Per the Financial Services Agreement, Kentucky-American Water Company (KAWC), will pay AWWFC "the costs, including appropriate overhead, incurred by AWWFC" in providing service under the agreement. Please provide the following information.

- A. Please indicate how AWWFC will allocate its overhead costs to Kentucky-American and other participating affiliates.

Response: As stated in the Application KAWC will be allocated a portion of the overhead costs (AWCC administrative charges and various bank and issuance costs) on the percentage of KAWC's participation in AWCC's short and long-term debt instruments.

- B. In as much detail as possible, AWWFC's most recent annual operating budget.

Response: At this time AWCC does not have an operating budget. AWCC will accumulate direct AWWSC charges and various bank and insurance costs as they are incurred. As the level of participation of each affiliate is defined, it will then become possible to forecast the amount of AWWSC charges and bank and issuance fees necessary to administer the activities of AWCC.

- C. Using the detailed operating budget data to be provided in response to part A, provide the portion of these annual operating budget data considered to be AWWFC's annual overhead charges to be charged to all of the AWWC affiliates that use the services of AWWFC. If there is a difference between AWWFC's total annual operating costs and AWWFC's annual overhead charges to be charged to all of the AWWC affiliates that use the services of AWWFC, please explain the difference.

Response: There is no operating budget for AWCC at this time; however, there will be no differences between the annual operating costs and the overhead charge to the participating affiliates. The AWWSC direct charges and other bank fees and issuance costs will be allocated entirely to all of the participating affiliates each year.

- D. Provide a listing of all AWWC affiliates (regulated and non-regulated). For each affiliate, indicate whether the affiliate has entered into the Financial Services Agreement. For any affiliate that has not entered executed the agreement, identify the affiliate and indicate whether the affiliate is seeking to use the services of AWWFC.

Response: Exhibit 1 attached hereto lists each affiliate currently seeking the services of AWCC. The following affiliates are not seeking the services of AWCC at this time:

AmericanAnglian Environmental Technologies, Inc.
AmericanAnglian Canada Co.
American Commonwealth Co.
American Water Resources, Inc.
American Water Services, Inc.
Coastal Water Resources, Inc.
Continental Water Co.

Greenwich Water System, Inc.
Illinois Water Service Co.
Massachusetts Capital Resources Co.
New Jersey-American Resources Co.
Water Utility Service Co.
Bluefield Valley Water Works Co.

- E. For each AWWC affiliate, provide (1) net plant investment, (2) total capitalization, and (3) total revenues.

Response: See Exhibit 2 attached hereto.

- F. Will AWWFC's total annual overhead charges be fully charged out each year to each AWWC affiliate that uses AWWFC's services during that particular year? Will the AWWFC overhead charge allocated to each of these affiliates be based on the particular affiliate's borrowings and investments in AWWFC for that particular year? Please explain in detail the answer to each question.

Response: AWCC's total annual charges will be fully allocated to the participating affiliates each year. The charges will be allocated based upon each affiliate's pro rata share of AWCC's borrowings and investments.

3. With respect to overhead costs, is there a maximum amount of AWWFC overhead charges that can be charged to any single AWWC, Inc., affiliate in a given year?

Response: The Agreement does not indicate any maximum amount that can be charged in any single year. However, as indicated herein, AWWSC employees will only charge time to AWCC when they are working on activities related to the areas identified herein. AWCC will be handling daily cash management, short-term debt, and investment activities and it is probable that each participating affiliate will be actively participating in AWCC activities each and every year. The level of capital spending in any year at a participating affiliate will determine how often that affiliate will use the long-term debt financing functions of AWCC.

- A. If only one affiliate utilizes the services of AWWFC during a particular year, will AWWFC charge that affiliate the entire amount of AWWFC's overhead charges?

Response: Yes, however, AWCC charges from AWWSC will be limited to the activities regarding that single affiliate. This scenario is highly unlikely.

- B. If no affiliate utilizes the services of AWWFC during a particular year, how and from whom will AWWFC recover its overhead charges?

Response: Again, this scenario is highly unlikely, but should it occur there would be no AWCC overhead to charge to any of the affiliates.

- C. Will AWWFC charge Kentucky-American for overhead charges in any year that Kentucky-American does not use AWWFC for borrowing or other services? If yes, please explain the system of allocation.

Response: No.

4. Did Kentucky-American produce or obtain possession of or access to any studies that compares the costs and benefits of the Financial Services Agreement to the costs and benefits of the Company's current method of borrowing? For example, was there any study that compares the actual costs of recent borrowing with the costs that would have been incurred had the Financial Service Agreement been in existence? If yes, please provide the studies.

Response: Yes. Exhibit 3 attached hereto compares recent market debt issues. The public market Medium Term Note program for long-term debt issues, the plan expected to be used by AWCC, clearly shows that by pooling the participating affiliates long-term debt requirements will be beneficial when compared to the current private placement market. The public market has clearly out performed the private market in recent debt issues. In addition, overhead costs, such as placement fees and legal fees, do not increase in direct relation to the size of the issue. It is expected that pooling of the participating affiliates long-term debt requirements will produce a reduced pro rata share of issuance costs for those affiliates. The bids for the short-term lines of credit will be available in the near future and the company fully expects to be able to demonstrate that those interest costs on the combined AWCC issue will out perform those that KAWC has obtained on its own.

5. Reference: Application, Numbered Paragraph 9. The Application indicates that the loans will be unsecured. What impact does this have on the cost rate for the borrowing? Does this mean that the cost rate will be more expensive? If not, please explain.

Response: The movement to pooling of the participating affiliates short and long-term debt requirements and to the public market are expected to lower the cost of capital of the participating affiliates from what they can obtain now as described in the answer to item 4. The participating affiliates will not pledge a lien against their assets but will only issue a note the AWCC for long-term debt. The accumulation of affiliate notes and the support agreement of the parent corporation will be the sole security for the AWCC issued debt. This arrangement should not have an adverse impact on the debt issues, regardless of the debt rating of AWCC.

6. Does AWWFC currently have a debt rating? If yes, please provide all details from all involved rating agencies. If no, please indicate whether, and when, AWWFC will obtain a debt rating.

Response: Yes, the debt rating assigned by Standard & Poor is A- and the debt rating assigned by Moody's Investors Service is Baa1.

7. How will AWWFC meet all of the short-term funding requirements of the participating affiliates? If, at any given time, AWWFC does not have sufficient funds to meet the needs of each participating affiliate, how will AWWFC determine funding request priority?

Response: Based upon the current financial strength of the entire American Water Works Company System, it is highly unlikely that the contemplated scenario would occur. If AWCC is unable to fund the requirements of the participating affiliates, they would be free to seek financing through any other means. In the unlikely event that funding is not available, expenditures of the affiliates would have to be adjusted to the level of available funding supports.

8. Please provide the following information with regard to any borrowings to be made by Kentucky-American under the proposed Financing Agreement.

- A. How will any short-term borrowings through the Financing Agreement with AWWFC be booked? provide all journal entries with account numbers and account titles. If applicable, explain how these bookings differ from the current booking for Kentucky-American short-term debt.

Response: The accounting entries for short-term borrowings would be a debit to Cash, Account 131303, and a Credit to Notes Payable - Associated Companies, Account 231200.

- B. How will any long-term borrowings through the Financing Agreement with AWWFC be booked? Provide all journal entries with account numbers and account titles. If applicable, explain how these bookings differ from the current booking for Kentucky-American long-term debt.

Response: The accounting entries for a long-term borrowing would be a debit to Cash, Account 131303, and a Credit to Bonds - Outside, Account 221110.

- C. Under the assumption that Kentucky-American obtains all future short-term and long-term debt through the Financing Agreement, indicate how this will impact the current and future debt rating of Kentucky-American.

Response: KAWC does not currently have a long-term debt rating and has issued its long-term debt in the private placement market. It is expected that the rated public issues of AWCC will out perform the current private placement practice of KAWC.

9. Please explain how prospective short-term and long-term debt secured through the proposed Financing Agreement impacts the capital structure and costs rates of Kentucky-American in the Company's current application for an adjustment of rates, Public Service Commission Case No. 2000-120.

Response: The current rate case is not expected to be impacted by the AWCC financing. The expected savings from AWCC financing arrangement are offset by increases in the current market from that initially included in Case 2000-120.

10. Reference: Financial Services Agreement, Numbered Paragraph 7 - Non-Exclusivity. Please explain how Kentucky-American will determine that terms available from AWWFC are the best terms available for an issuance of debt or other borrowing activity.

Response: KAWC will have to compare the financing terms from AWCC to other options in the market at the time it contemplates placing debt instruments and make a determination as to the prudence of accepting AWCC terms. The prudence of those decisions will be subject to review in future rate cases and, as always, KAWC will bear the burden of proof to substantiate the wisdom and prudence of those decisions.

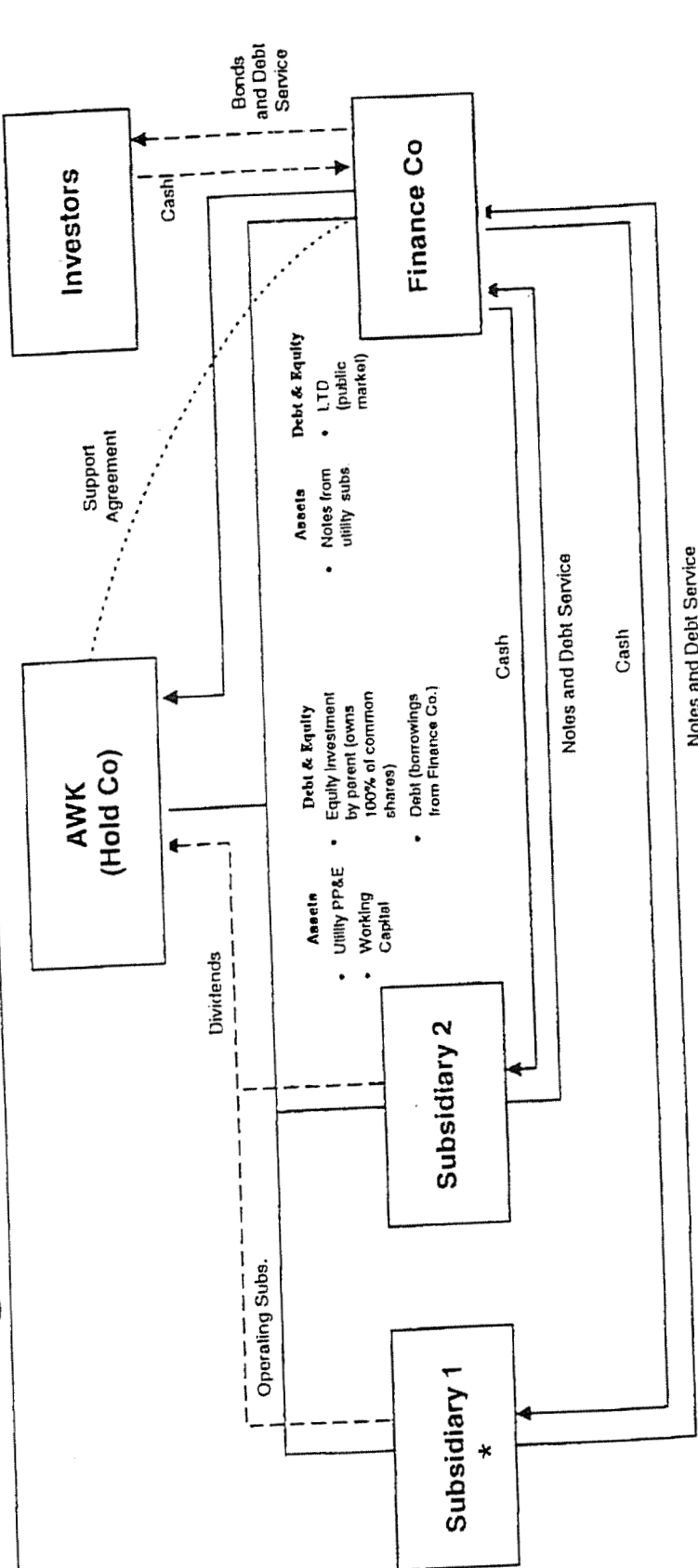
HERBERT A. MILLER, JR., ESQ.
KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND ROAD
LEXINGTON, KY 40502

and

LINDSEY INGRAM, JR., ESQ.
LIZBETH ANN TULLY, ESQ.
STOLL, KEENON & PARK, LLP
201 EAST MAIN STREET, SUITE 1000
LEXINGTON, KENTUCKY 40507-1380
TELEPHONE: (859) 231-3000

BY: 
Lindsey Ingram, Jr.

Structuring AWK Fincorp



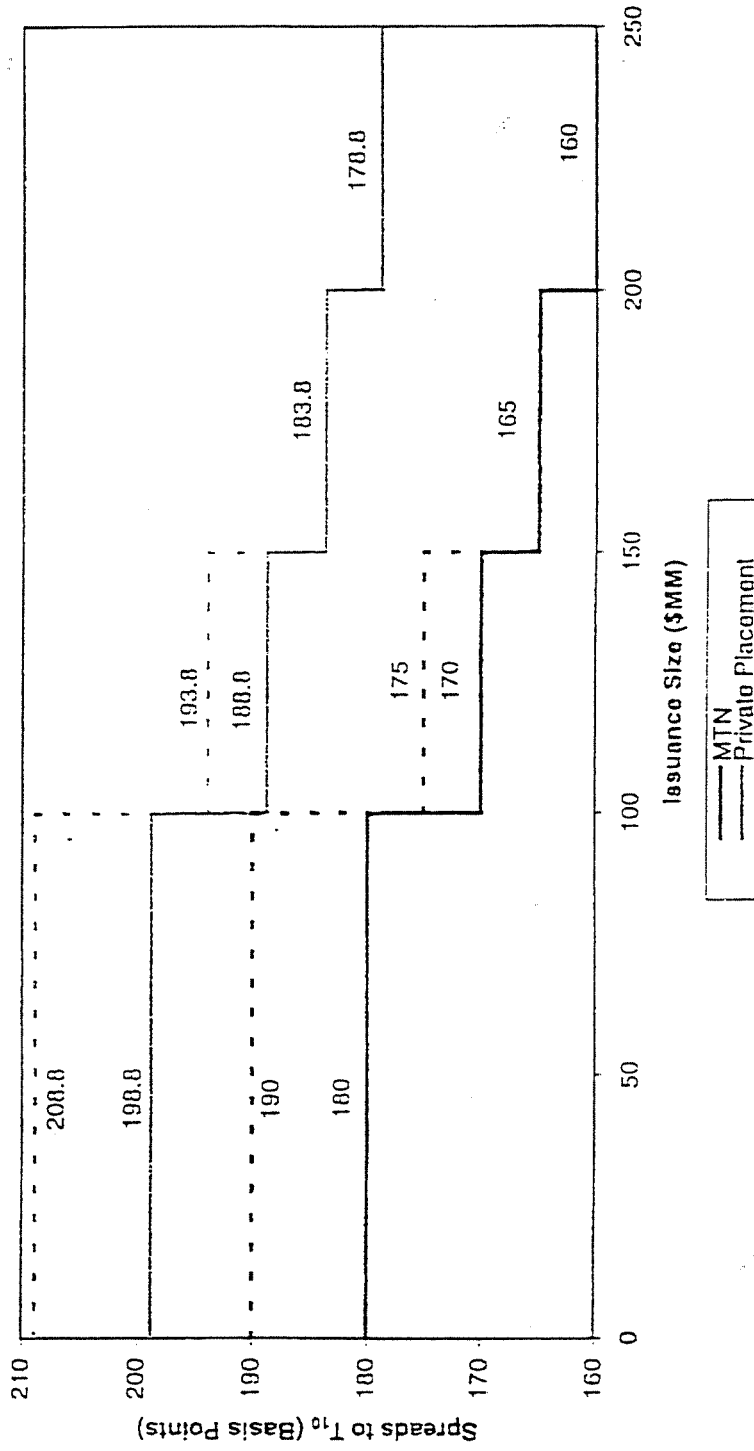
*Arizona-American	Indiana-American	Michigan-American	Pennsylvania-American
California-American	Iowa-American	Missouri-American	St. Louis County Water
Connecticut-American	Kentucky-American	New Jersey-American	Tennessee-American
Hampton Water Works	Long Island Water	New Mexico-American	The Salisbury Water Supply
Hawaii-American	Maryland-American	New York American	Virginia-American
Illinois-American	Massachusetts-American	Ohio-American	West Virginia-American

AMERICAN WATER WORKS COMPANY AFFILIATES
AT DECEMBER 31, 1999
IN THOUSANDS

	NET PLANT INVESTMENT	CAPITALIZATION				TOTAL REVENUES
		COMMON EQUITY	PREFERRED STOCK	LONG-TERM DEBT	TOTAL	
AMERICAN COMMONWEALTH	\$0	\$9,891	\$0		\$9,891	\$0
AMERICAN WATER RESOURCES	0	20,551	0		20,551	0
AMERICAN WATER SERVICES	0	40,015	0		40,015	0
AMERICAN WATER WORKS SERVICE	0	10	0	5,421	5,431	0
ARIZONA-AMERICAN	22,943	6,098	0	4,760	10,858	4,794
BLUEFIELD VALLEY	407	231	19	0	250	251
CALIFORNIA-AMERICAN	162,285	58,532	0	64,000	122,532	68,372
CONNECTICUT-AMERICAN	78,076	25,141	719	34,000	59,860	21,207
CONTINENTAL WATER	0	199,126	0	0	199,126	0
GREENWICH WATER SYSTEM	0	35,617	0	0	35,617	0
HAMPTON	17,192	5,351	187	7,500	13,038	3,792
HAWAII-AMERICAN	15,976	7,025	0	9,000	16,025	6,203
ILLINOIS-AMERICAN	253,157	100,763	762	120,620	222,145	74,363
INDIANA-AMERICAN	350,079	122,159	581	164,112	286,852	73,387
IOWA-AMERICAN	60,116	20,098	3,460	29,030	52,588	20,496
KENTUCKY-AMERICAN	183,732	58,276	7,038	63,000	128,314	39,104
LONG ISLAND	51,935	25,456	1,125	23,000	49,581	35,309
MARYLAND-AMERICAN	9,938	3,626	0	5,000	8,626	2,815
MASSACHUSETTS-AMERICAN	25,520	8,184	0	11,400	19,584	11,229
MASSACHUSETTS CAPITAL	35,368	6,350	0	36,690	43,040	0
MICHIGAN-AMERICAN	1,686	1,579	0	0	1,579	1,043
MISSOURI-AMERICAN	190,133	47,672	2,742	64,555	114,969	30,733
NEW JERSEY-AMERICAN	921,254	364,544	2,022	436,000	802,566	244,100
NEW JERSEY-AMERICAN WATER RESOURCES	0	315	0	0	315	880
NEW MEXICO-AMERICAN	19,094	6,817	0	8,500	15,317	6,171
NEW YORK-AMERICAN	23,654	7,383	1,000	11,200	19,583	10,292
NORTHERN ILLINOIS	79,643	30,356	0	33,000	63,356	22,968
NORTHWEST INDIANA	98,006	27,914	0	28,144	56,058	27,049
OHIO-AMERICAN	52,109	17,529	1,340	23,713	42,582	20,318
PENNSYLVANIA-AMERICAN	1,316,458	459,648	16,056	619,812	1,095,516	291,029
SALISBURY	6,078	3,004	0	3,800	6,804	1,996
SIJW ACQUISITION	0	0	0	0	0	0
ST. LOUIS COUNTY	373,295	121,541	0	142,234	263,775	105,841
TENNESSEE-AMERICAN	99,465	33,262	1,553	38,446	73,261	31,579
VIRGINIA-AMERICAN	96,444	30,894	2,382	35,600	68,876	30,183
WATER UTILITY SERVICE	0	-385	0	0	-385	0
WEST VIRGINIA-AMERICAN	394,894	134,384	2,880	170,399	307,663	77,851

"affiliates"

Indicative Pricing for A3/A Water Companies





COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

June 23, 2000

Honorable Herbert A. Miller
Attorney for Company
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY. 40502

Honorable Lindsey Ingram
Attorney at Law
Stoll, Kennon & Park, LLP
201 East Main Street
Suite 1000
Lexington, KY. 40507 1380

Honorable David E. Spenard
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY. 40601 8204

RE: Case No. 2000-189

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

Stephanie Bell
Stephanie Bell
Secretary of the Commission

SB/sh
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF)	
KENTUCKY-AMERICAN WATER)	
COMPANY FOR APPROVAL OF)	CASE NO. 2000-189
PARTICIPATION IN)	
BORROWING PROGRAM)	

O R D E R

On May 5, 2000, Kentucky-American Water Company ("Kentucky-American") filed an application for Commission approval to participate in a borrowing program. Pursuant to KRS 278.300, the Commission must dispose of this case on or before July 4, 2000 unless the Commission finds good cause to extend the time. Such cause exists here for the reasons set out below.

On May 31, 2000, the Attorney General of Kentucky ("AG") filed a request for information. To date Kentucky-American has filed neither an objection nor a response to that data request. Additional time will be required for the AG and Commission Staff to analyze Kentucky-American's response to the data request. Moreover, Commission Staff will require additional time to fully advise the Commission based upon the response to the data request. Accordingly, given the brief period remaining in the statutory 60-day timeframe, the Commission finds that this case should be continued for an additional time beyond the initial 60 days.

Being sufficiently advised, the Commission HEREBY ORDERS that:

1. On or before July 3, 2000, Kentucky-American shall file its response to the data request of the AG.

2. This case is continued for a period of 30 days from the date of this Order.

Done at Frankfort, Kentucky, this 23rd day of June, 2000.

By the Commission

ATTEST:

Deputy Wm H. Bomher
Executive Director

Commonwealth of Kentucky
Before the Public Service Commission

RECEIVED

MAY 31 2000

PUBLIC SERVICE
COMMISSION

In the Matter of:)
THE APPLICATION OF KENTUCKY-AMERICAN) Case No. 2000-189
WATER COMPANY FOR APPROVAL OF)
PARTICIPATION IN BORROWING PROGRAM)

INITIAL REQUEST FOR INFORMATION
BY THE ATTORNEY GENERAL

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Initial Request for Information by the Attorney General.

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

A.B. CHANDLER III
ATTORNEY GENERAL

David Edward Spenard
David Edward Spenard
Assistant Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40601-8204
502-696-5453
(FAX) 502-573-8315

Notification of Filing and Certificate of Service

Counsel certifies that an original and ten photocopies of this Initial Request For Information By The Attorney General were served and filed by hand delivery to Martin Huelsmann, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to Herbert A. Miller, Kentucky-American Water Company, 2300 Richmond Road Lexington, Kentucky 40502 and Lindsey W. Ingram, Jr., Stoll, Kennon & Park, LLP, 201 East Main Street Suite 1000, Lexington, Kentucky 40507 1380, all on this 31st day of May, 2000.

David Edward Spenard
Assistant Attorney General

INITIAL REQUEST FOR INFORMATION BY THE ATTORNEY GENERAL

1. With regard to American Water Works Financing Corporation (AWWFC), currently incorporated as a Delaware corporation and wholly owned by American Water Works Company, Inc. (AWWC), please provide the following information:
 - A. An overall organization chart showing the organizational, functional and line relationships between AWWFC, AWWC, all utility subsidiaries of AWWC, and all other subsidiaries of AWWC.
 - B. A detailed organization chart of AWWFC showing each of the officer's and top management positions and offices, internal departments, and total number of employees by employee category.
 - C. A balance sheet showing the major assets and liabilities of AWWFC, and AWWFC's equity funds in dollars and as a percentage of total capitalization.
 - D. A description of the ownership and ownership percentages of AWWFC.
2. Per the Financial Services Agreement, Kentucky-American Water Company (KAWC), will pay AWWFC "the costs, including appropriate overhead, incurred by AWWFC" in providing service under the agreement. Please provide the following information.
 - A. Please indicate how AWWFC will allocate its overhead costs to Kentucky-American and other participating affiliates.
 - B. In as much detail as possible, AWWFC's most recent annual operating budget.
 - C. Using the detailed operating budget data to be provided in response to part A, provide the portion of these annual operating budget data considered to be AWWFC's annual overhead charges to be charged to all of the AWWC affiliates that use the services of AWWFC. If there is a difference between AWWFC's total annual operating costs and AWWFC's annual overhead charges to be charged to all of the AWWC affiliates that use the services of AWWFC, please explain the difference.
 - D. Provide a listing of all AWWC affiliates (regulated and non-regulated). For each affiliate, indicate whether the affiliate has entered into the Financial Services Agreement. For any affiliate that has not entered executed the agreement, identify the affiliate and indicate whether the affiliate is seeking to use the services of AWWFC.

E. For each AWWC affiliate, provide (1) net plant investment, (2) total capitalization, and (3) total revenues.

F. Will AWWFC's total annual overhead charges be fully charged out each year to each AWWC affiliate that uses AWWFC's services during that particular year? Will the AWWFC overhead charge allocated to each of these affiliates be based on the particular affiliate's borrowings and investments in AWWFC for that particular year? Please explain in detail the answer to each question.

3. With respect to overhead costs, is there a maximum amount of AWWFC overhead charges that can be charged to any single AWWC, Inc., affiliate in a given year?

A. If only one affiliate utilizes the services of AWWFC during a particular year, will AWWFC charge that affiliate the entire amount of AWWFC's overhead charges?

B. If no affiliate utilizes the services of AWWFC during a particular year, how and from whom will AWWFC recover its overhead charges?

C. Will AWWFC charge Kentucky-American for overhead charges in any year that Kentucky-American does not use AWWFC for borrowing or other services? If yes, please explain the system of allocation.

4. Did Kentucky-American produce or obtain possession of or access to any studies that compares the costs and benefits of the Financial Services Agreement to the costs and benefits of the Company's current method of borrowing? For example, was there any study that compares the actual costs of recent borrowing with the costs that would have been incurred had the Financial Service Agreement been in existence? If yes, please provide the studies.
5. Reference: Application, Numbered Paragraph 9. The Application indicates that the loans will be unsecured. What impact does this have on the cost rate for the borrowing? Does this mean that the cost rate will be more expensive? If not, please explain.
6. Does AWWFC currently have a debt rating? If yes, please provide all details from all involved rating agencies. If no, please indicate whether, and when, AWWFC will obtain a debt rating.
7. How will AWWFC meet all of the short-term funding requirements of the participating affiliates? If, at any given time, AWWFC does not have sufficient funds to meet the needs of each participating affiliate, how will AWWFC determine funding request priority?

8. Please provide the following information with regard to any borrowings to be made by Kentucky American under the proposed Financing Agreement.
 - A. How will any short-term borrowings through the Financing Agreement with AWWFC be booked? Provide all journal entries with account numbers and account titles. If applicable, explain how these bookings differ from the current booking for Kentucky-American short-term debt.
 - B. How will any long-term borrowings through the Financing Agreement with AWWFC be booked? Provide all journal entries with account numbers and account titles. If applicable, explain how these bookings differ from the current booking for Kentucky-American long-term debt.
 - C. Under the assumption that Kentucky-American obtains all future short-term and long-term debt through the Financing Agreement, indicate how this will impact the current and future debt rating of Kentucky-American.
9. Please explain how prospective short-term and long-term debt secured through the proposed Financing Agreement impacts the capital structure and costs rates of Kentucky-American in the Company's current application for an adjustment of rates, Public Service Commission Case No. 2000-120.
10. Reference: Financial Services Agreement, Numbered Paragraph 7 - Non-Exclusivity. Please explain how Kentucky-American will determine that terms available from AWWFC are the best terms available for an issuance of debt or other borrowing activity.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 22, 2000

Honorable Herbert A. Miller
Attorney for Company
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY. 40502

Honorable Lindsey Ingram
Attorney at Law
Stoll, Kennon & Park, LLP
201 East Main Street
Suite 1000
Lexington, KY. 40507 1380

Honorable David E. Spenard
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY. 40601 8204

RE: Case No. 2000-189

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Bell". The signature is written in a cursive, flowing style.

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY-AMERICAN)	
WATER COMPANY FOR APPROVAL OF)	CASE NO.
PARTICIPATION IN BORROWING PROGRAM)	2000-189

O R D E R

This matter arising upon the motion of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), filed May 16, 2000, pursuant to KRS 367.150(8), for full intervention, such intervention being authorized by statute, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that the motion is granted, and the Attorney General is hereby made a party to these proceedings.

Done at Frankfort, Kentucky, this 22nd day of May, 2000.

By the Commission

ATTEST:



Executive Director

STOLL, KEENON & PARK, LLP

LESLIE W. MORRIS II
LINDSEY W. INGRAM, JR.
WILLIAM L. MONTAGUE
JOHN STANLEY HOFFMAN**
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May 12, 2000

Via Hand Delivery

Martin J. Huelsmann, Jr., Esq.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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MAY 12 2000

PUBLIC SERVICE
COMMISSION

2000-189

RE: Amended Application of Kentucky-American Water Company
for Approval of Participation in Borrowing Program

Dear Marty:

The original and ten (10) copies of an amendment to the Application of Kentucky-American Water Company for approval of its participation in a borrowing program with American Water Capital Corp. are enclosed.

Again, an expedited review of this Application, as amended, would be appreciated.

Very truly yours,

STOLL, KEENON & PARK, LLP

By _____

Lindsey Ingram, Jr.

/s/

cc w/enc.: J. R. Goff, Esq. [via hand delivery]

312C:\Work\LWKAWC\GENERAL\005Huelsman.ltr

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAY 12 2000

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)
)
KENTUCKY-AMERICAN WATER COMPANY) ADMINISTRATIVE
APPLICATION FOR APPROVAL OF) CASE NO. 2000-189
PARTICIPATION IN BORROWING PROGRAM)

AMENDED APPLICATION OF
KENTUCKY-AMERICAN WATER COMPANY
FOR APPROVAL OF PARTICIPATION
IN BORROWING PROGRAM

Comes Kentucky-American Water Company, by counsel, and for its amendment to its Application for Approval of Participation in Borrowing Program states as follows:

1. That in its Application filed herein it indicated that the name of the corporation with which it proposed to enter into a Financial Services Agreement would be American Water Works Financing Corporation. That corporation has now been organized and its name is American Water Capital Corp.

2. That it reiterates and adopts herein all of the allegations contained in its original Application except for the name change from American Water Works Financing Corporation to American Water Capital Corp. in its Application and all of the attachments thereto.

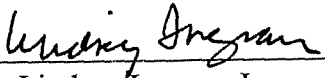
WHEREFORE, Kentucky-American Water Company requests that the Commission, pursuant to KRS 278.300, authorize execution of the Financial Services Agreement by Kentucky-American

Water Company with American Water Capital Corp. and its participation in the financial programs described in the Application and attachments thereto.

HERBERT A. MILLER, JR., ESQ.
KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND ROAD
LEXINGTON, KY 40502

and

LINDSEY INGRAM, JR., ESQ.
LIZBETH ANN TULLY, ESQ.
STOLL, KEENON & PARK, LLP
201 EAST MAIN STREET, SUITE 1000
LEXINGTON, KENTUCKY 40507-1380
TELEPHONE: (859) 231-3000

BY: 
Lindsey Ingram, Jr.

Commonwealth of Kentucky
Before the Public Service Commission

RECEIVED
MAY 18 2000
PUBLIC SERVICE
COMMISSION

In the Matter of:)
THE APPLICATION OF KENTUCKY-AMERICAN) Case No. 2000-189
WATER COMPANY FOR APPROVAL OF)
PARTICIPATION IN BORROWING PROGRAM)

MOTION TO INTERVENE

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, pursuant to KRS 367.150(8), and moves to intervene in the above-styled proceeding. The Attorney General requests that he be permitted to intervene as a party to the fullest extent permitted by law in order to execute his statutory duties pursuant to KRS 367.150(8).

Respectfully submitted,

A. B. CHANDLER III
ATTORNEY GENERAL

David Edward Spenard

David Edward Spenard
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY 40601-8204
502.696.5457

Notification of Filing and Certificate of Service

Counsel certifies that an original and ten photocopies of this Motion to Intervene were served and filed by hand delivery to Martin Huelsmann, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to Herbert A. Miller, Kentucky-American Water Company, 2300 Richmond Road Lexington, Kentucky 40502 and Lindsey W. Ingram, Jr., Stoll, Kennon & Park, LLP, 201 East Main Street Suite 1000, Lexington, Kentucky 40507 1380, all on this 16th day of May, 2000.

David Edith Spindel
Assistant Attorney General



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 11, 2000

Honorable Herbert A. Miller
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY. 40502

Honorable Lindsey Ingram
Attorney at Law
Stoll, Kennon & Park, LLP
201 East Main Street
Suite 1000
Lexington, KY. 40507 1380

RE: Case No. 2000-189
KENTUCKY-AMERICAN WATER COMPANY

The Commission staff has reviewed your application in the above case and finds that it meets the minimum filing requirements. Enclosed please find a stamped filed copy of the first page of your filing. This case has been docketed and will be processed as expeditiously as possible.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Bell". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

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MAY 5 2000
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April 20, 2000

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Via Hand Delivery

Martin J. Huelsmann, Jr., Esq.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: Application of Kentucky-American Water Company
for Approval of Participation in Borrowing Program

Case 2000-189

Dear Marty:

The original and ten (10) copies of an Application of Kentucky-American Water Company for approval of its participation in a borrowing program are enclosed.

Kentucky-American Water Company intends to convert its current short-term borrowing arrangement to the one described in the Application no later than July 1, 2000. An expedited review of this Application would be appreciated.

Very truly yours,

STOLL, KEENON & PARK, LLP

By

Lindsey
Lindsey Ingram, Jr.

/sl

cc w/enc.: Via Hand Delivery

Richard Richard G. Raff, Esq.
Gerald E. Wuetcher, Esq.

STOLL, KEENON & PARK, LLP

LESLIE W MORRIS II
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MAY 8 2000

GENERAL COUNSEL

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May 5, 2000

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J. R. Goff, Esq.
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: Case No. 2000-189
Kentucky-American Water Company

Dear J. R.:

This will confirm our telephone conversation of today wherein I advised that Kentucky-American has no intention of withdrawing or modifying its Application for Approval of Participation in a Borrowing Program.

All of the operating subsidiaries of American Water Works are engaged in seeking approval of their participation in this borrowing program in multiple states. The program is dependent upon securing approval from every state Commission, where required, by June 26.

If there is anything that Coleman Bush, Treasurer of Kentucky-American, and I can do to speed up the process or provide you with additional information, please let me know.

With best regards, I am

Very truly yours,

STOLL, KEENON & PARK, LLP

By

Lindsey

Lindsey Ingram, Jr.

/sl

cc: Herbert A. Miller, Jr., Esq.
Coleman D. Bush

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Via Facsimile

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May 5, 2000

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Via Facsimile

J. R. Goff, Esq.
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: Case No. 2000-189
Kentucky-American Water Company

Dear J. R.:

This will confirm our telephone conversation of today wherein I advised that Kentucky-American has no intention of withdrawing or modifying its Application for Approval of Participation in a Borrowing Program.

All of the operating subsidiaries of American Water Works are engaged in seeking approval of their participation in this borrowing program in multiple states. The program is dependent upon securing approval from every state Commission, where required, by June 26.

If there is anything that Coleman Bush, Treasurer of Kentucky-American, and I can do to speed up the process or provide you with additional information, please let me know.

With best regards, I am

Very truly yours,

STOLL, KEENON & PARK, LLP

By Lindsey
Lindsey Ingram, Jr.

/s/

cc: Herbert A. Miller, Jr., Esq.
Coleman D. Bush



Paul E. Patton, Governor

**Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet**

**Martin J. Huelsmann
Executive Director
Public Service Commission**

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
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**B. J. Helton
Chairman**

**Edward J. Holmes
Vice Chairman**

**Gary W. Gillis
Commissioner**

April 24, 2000

Honorable Herbert A. Miller
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

Honorable Lindsey Ingram
Attorney at Law
Stoll, Keenon, & Park, LLP
201 East Main Street
Suite 1000
Lexington, KY 40507 1380

RE: Case No. 2000-189
KENTUCKY-AMERICAN WATER COMPANY
(Financing) PARTICIPATION IN BORROWING PROGRAM

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received April 20, 2000 and has been assigned Case No. 2000-189. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/jc



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GAYLE A. MOHNEY (1906 - 1980)
C. WILLIAM SWINFORD (1921 - 1986)
ROBERT F. HOULIHAN (1916 - 1999)

FILED
MAY 5 2000
PUBLIC SERVICE
COMMISSION

April 20, 2000

RECEIVED

APR 20 2000

PUBLIC SERVICE
COMMISSION

Via Hand Delivery

Martin J. Huelsmann, Jr., Esq.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: Application of Kentucky-American Water Company
for Approval of Participation in Borrowing Program

Case 2000-189

Dear Marty:

The original and ten (10) copies of an Application of Kentucky-American Water Company for approval of its participation in a borrowing program are enclosed.

Kentucky-American Water Company intends to convert its current short-term borrowing arrangement to the one described in the Application no later than July 1, 2000. An expedited review of this Application would be appreciated.

Very truly yours,

STOLL, KEENON & PARK, LLP

By

Lindsey
Lindsey Ingram, Jr.

/s/

cc w/enc.: Via Hand Delivery

Richard G. Raff, Esq.
Gerald E. Wuetcher, Esq.

RECEIVED

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

APR 20 2000

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)

KENTUCKY-AMERICAN WATER COMPANY)
APPLICATION FOR APPROVAL OF)
PARTICIPATION IN BORROWING PROGRAM)

ADMINISTRATIVE
CASE NO. 2000-189

APPLICATION OF
KENTUCKY-AMERICAN WATER COMPANY
FOR APPROVAL OF PARTICIPATION
IN BORROWING PROGRAM

Kentucky-American Water Company for its Application for Approval of Participation in Borrowing Program states as follows:

1. The name of the applicant is Kentucky-American Water Company ("KAWC"), with offices located at 2300 Richmond Road, Lexington, Kentucky 40502.
2. KAWC is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business in Lexington, Fayette County, Kentucky, and is engaged in the distribution and sale of water in the city of Lexington, Kentucky, and other areas of Fayette County, Kentucky. In addition, it renders direct service to customers in Bourbon, Clark, Harrison, Scott and Woodford Counties, along with service to a water company and a water district whose customers are in Jessamine County, Kentucky.
3. KAWC's Articles of Incorporation are of record before the Commission as Filing Exhibit 4 in Case No. 95-554, Notice of the Adjustment of the Rates of Kentucky-American Water Company Effective on and after February 29, 1996.

4. The property owned and operated by the KAWC includes two principal purification and pumping plants, one known as the Richmond Road Station and one known as the Kentucky River Station. Additional property and facilities include two reservoirs, intake facilities, a transmission and distribution system consisting of mains and other pipelines of various sizes, hydrants, services, meters, booster stations, storage tanks, a three-story brick operating complex at 2300 Richmond Road, land upon which its various structures are located, watershed acreage and numerous rights of way for pipeline purposes. The original cost of the Company's utility plant in service as of March 31, 2000, was \$218,104,878.

5. KAWC's financial exhibit is attached hereto as Exhibit 1 as required by 807 KAR 5:001(11)(2)(a).

6. KAWC wishes to enter into a Financial Services Agreement (attached hereto as Exhibit 2) and participate in the borrowing program described therein. KAWC's participation in such borrowing program requires prior approval from the Commission in accordance with KRS 278.300(1). KAWC, accordingly, files this Application seeking an Order authorizing KAWC to (a) enter into the Financial Services Agreement, and (b) participate in the borrowing program described therein.

7. KAWC's participation in the borrowing program would greatly enhance its borrowing capacity. The borrowing program has been made available to KAWC through its parent corporation, American Water Works Company, Inc. ("American Water Works"). American Water Works and each of its subsidiaries wish to pool their borrowing requirements so that when they borrow they can obtain the advantageous terms available in the public market. Larger loans are less costly for each dollar borrowed because up front issuance costs remain relatively constant regardless of the size of the loan and lenders of larger loans are able to share their risk with others. Each of

American Water Works' subsidiaries, along with American Water Works, therefore, propose to enter into a Financial Services Agreement with American Water Works Financing Corporation ("AWWFC") so that AWWFC may utilize the borrowing power and combined borrowing efficiency of the totality of the participants in the borrowing program to obtain more advantageous funding for the individual participants.

8. AWWFC will be a wholly owned subsidiary of American Water Works, dedicated to providing financial services to American Water Works and its subsidiaries which participate in the borrowing program. It will obtain its funds primarily by borrowing from two sources. It will arrange for a syndicated bank credit line to provide short-term loans. Additionally, it will register its own debt securities for sale in the public market by filing a shelf registration with the Securities and Exchange Commission.

9. Each participant in the borrowing program will provide AWWFC with an estimate of its borrowing requirements for the coming year and on a rolling basis for several years in advance. On the basis of that information, AWWFC will arrange borrowing commitments and borrowing programs in order to provide the funds necessary to meet those requirements. The liability incurred by each participant in the borrowing program on its individual debt will be several. The loans will be unsecured. American Water Works will, however, issue a support letter for the benefit of the purchasers of AWWFC's debt.

10. As a participant in the borrowing program, KAWC will obtain short-term and long-term loans from AWWFC. KAWC proposes to issue securities in the form of notes or debentures (the "Securities") in an aggregate outstanding principal amount of \$41,500,000 from time to time prior to December 31, 2005. The \$41,500,000 consists of the refunding of \$4,000,000 of 9.83% Series debt maturing on November 1, 2000, by the acquisition of \$4,000,000 of short-term

debt from AWWFC; the conversion of short-term indebtedness on or about December 1, 2000, in the anticipated amount of \$10,000,000 (which includes \$6,000,000 outstanding and \$4,000,000 utilized to refund the 9.83% Series) to \$10,000,000 of long-term indebtedness; the refunding of \$13,000,000 of 8.36% Series debt maturing on December 1, 2001, by the borrowing of \$13,000,000 of long-term debt from AWWFC; the refunding of \$13,000,000 of 7.21% Series debt maturing on December 1, 2002 by the borrowing of \$13,000,000 of long-term loans from AWWFC; and the refunding of \$5,500,000 of 6.79% Series debt maturing on September 1, 2005, by the borrowing of \$5,500,000 of long-term loans from AWWFC. On or before July 1, 2000, KAWC proposes to execute a short-term loan promissory note with AWWFC to replace its existing arrangement for short-term borrowings. KAWC also intends to borrow from AWWFC capital that may be needed for its construction program and to finance the acquisition of other utility systems. The Securities will be issued pursuant to the Financial Services Agreement with AWWFC.

- a. Title of the Security: AWWFC Securities.
- b. Aggregate Principal Amount to be Issued: Up to an aggregate amount of \$41,500,000 to convert existing short term and refinance long term, and additional funds for construction and acquisitions as may be needed.
- c. Expected Date of Issue: It is anticipated that the first issue of long-term debt will occur on December 1, 2000, and as required to December 31, 2005. The first issue of short-term debt will occur on or before July 1, 2000, to replace the existing arrangement.
- d. Date of Maturity: In the case of long-term debt, the maturity will not be more than 50 years from the nominal date of issue, with the expectation that the maturity dates can be from 1 to 35 years, depending upon market conditions.
- e. Interest Rate(s): The interest rates on the Securities will be determined by market conditions at the time of issuance. It is anticipated that the securities will be sold carrying an interest rate spread of approximately 200 basis points above the corresponding

rate for risk free U.S. Treasury securities, based upon current market conditions.

- f. Interest Payment Dates: Interest will be payable at the same time and on the same dates as AWWFC must pay its corresponding interest payment on the borrowings from which the proceeds of the loan to KAWC were derived. This is expected to be monthly, quarterly or semiannually and is subject to final negotiation.
- g. Extent to Which Taxes on Securities are Assumed by Issuer: None.
- h. Security: The Securities will be unsecured and therefore will rank on a parity with KAWC's unsecured creditors and will not have the benefit of the security afforded by KAWC's General Mortgage Indenture.
- i. Callability and Conversion Provisions: The Securities evidencing long-term indebtedness will have the same callability and conversion features as AWWFC obtains in connection with its borrowings from which the proceeds of the loan to KAWC are derived. These may include provisions for redemption of the option of AWWFC (and therefore of KAWC) or tender at the option of the purchaser as may be negotiated with the agent or purchaser(s) of the securities evidencing the indebtedness. These provisions will be provided by reference to a prospectus or offering memorandum relating to the Securities, which can be provided supplementally to the relevant regulatory authority. The Securities will have no conversion features.
- j. Maintenance and Depreciation Provisions: There will be no maintenance and depreciation requirements unless the borrowings are made on a tax-free basis; such provisions are then usually required.
- k. Sinking or Other Fund Provisions: The securities will reflect whatever terms AWWFC can obtain from its lenders. It is expected that normally there will be none.
- l. Purpose: The purpose for which KAWC proposes to issue the securities is:
 - i. to convert current existing short-term debt to long-term debt,
 - ii. to refinance short-term debt,
 - iii. to repay long-term debt,

- iv. to fund construction, and
- v. to finance acquisitions.

11. KAWC seeks approval for its participation in this borrowing program so that it may obtain the funding it needs over the coming years at less cost and so that it may be assured of a readily available source of funds.

12. Because of its participation in the borrowing program, KAWC may also enjoy tax savings, a benefit to its ratepayers. To receive the benefit of such tax savings, KAWC will organize a limited liability company funded by a nominal amount. KAWC's limited liability company will in turn organize a wholly-owned subsidiary, a Delaware corporation. AWWFC will then lend funds (other than those loaned to KAWC) to the limited liability company formed by KAWC, as well as other limited liability companies formed by other American Water Works subsidiaries. The limited liability companies will contribute their loans to the capital of their wholly owned Delaware corporations which will lend the money to American Water Works. Through this arrangement, and as a result of filing consolidated Kentucky income tax returns, based on current laws KAWC will be able to reduce its Kentucky tax liability and pass such tax savings on to its ratepayers because its limited liability company will have an interest expense with no offsetting interest income.

13. KAWC's participation in the borrowing program does not preclude it from either borrowing from or obtaining financial services from third parties. KAWC is not required to borrow any amount from AWWFC. Further, KAWC may terminate its participation in the borrowing program upon a ten day written notice.

14. KAWC does not seek to issue any kind of stock through its participation in the borrowing program. When it deems advantageous to obtain a loan under the borrowing program, it will issue notes in the form described in paragraph 9 above and as attached to Exhibit 2.


15. KAWC would through the execution of the Financial Services Agreement additionally receive the benefit of cash management services provided by AWWFC. A full description of such services is found in Appendix 1 to the Financial Services Agreement.

16. KAWC's execution of the Financial Services Agreement and its participation in the borrowing program is for a lawful object within the corporate purposes of the utility. Such participation is necessary and appropriate for and consistent with the proper performance by KAWC of its services and will not impair KAWC's ability to perform its services and is reasonably necessary and appropriate for such purposes.

WHEREFORE, Kentucky-American Water Company requests that the Commission pursuant to KRS 278.300 authorize the execution of the Financial Services Agreement and KAWC's participation in the borrowing program described therein.

This 19th day of April, 2000.

KENTUCKY-AMERICAN WATER COMPANY
2300 Richmond Road
Lexington, Kentucky 40502
Telephone: (859) 269-2386

BY: 
Coleman D. Bush, Vice President and Treasurer

STATE OF KENTUCKY)

COUNTY OF FAYETTE)

Subscribed, sworn to, and acknowledged before me by Coleman D. Bush on this the 19th
day of April, 2000.

My Commission Expires: 7-5-02

Sharon B. Sykins
NOTARY PUBLIC

HERBERT A. MILLER, JR., ESQ.
KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND ROAD
LEXINGTON, KENTUCKY 40502

and

LINDSEY W. INGRAM, JR., ESQ.
LIZBETH ANN TULLY, ESQ.
STOLL, KEENON & PARK, LLP
201 EAST MAIN STREET, SUITE 1000
LEXINGTON, KENTUCKY 40502
Telephone: (606) 231-3000

BY: Lindsey Ingram
Lindsey W. Ingram, Jr.

EXHIBIT 1

FINANCIAL STATEMENT
OF
KENTUCKY-AMERICAN WATER COMPANY

(as of December 31, 1999
except where noted)

(1) The amount and kinds of stock of the Applicant authorized are as follows:

Cumulative Preferred Stock, par value \$100 per share:

Series A, 4-1/2%	4,000 Shares
Series B, 5-3/4%	5,000 Shares
Series C, 5-1/2%	5,000 Shares
Series D, 5%	6,000 Shares
Unclassified	5,000 Shares

Preference Stock, par value \$100 per share:

8.47% Series	45,000 Shares
7.9% Series	20,000 Shares
Unclassified	85,000 Shares

Common Stock, no par value	2,000,000 Shares
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(2) The amounts and kinds of stock of the Applicant issued and outstanding are as follows:

Cumulative Preferred Stock, par value \$100 per share:

Series A, 4-1/2%	80 Shares
Series B, 5-3/4%	4,700 Shares
Series C, 5-1/2%	5,000 Shares
Series D, 5%	6,000 Shares

Preference Stock, par value \$100 per share:

8.47% Series	45,000 Shares
7.9% Series	9,600 Shares

Common Stock, no par value	1,567,391 Shares
----------------------------	------------------

- (3) The Cumulative Preferred Stock is cumulative as to dividends. If dividends on the Cumulative Preferred Stock shall be in arrears and such arrears shall aggregate an amount equal to or in excess of four (4) quarterly dividends upon such stock, the number of directors then constituting the Board of Directors shall be increased by two (2) and the holders of the Preferred Stock voting separately as a class shall be entitled to elect the two (2) additional directors.

The Cumulative Preferred Stock is redeemable at any time upon thirty (30) days' notice at the following prices: the Series A Stock at \$101 per share; the Series B at \$101 per share; the Series C at \$100.50 per share; and the Series D at \$100.

The Cumulative Preferred Stock, Series A, Series B, Series C and Series D are redeemable at par (\$100) in cases of (a) governmental or municipal acquisition of the Applicant's facilities or common stock, or (b) as to the Series A by operation of a sinking fund for retirement of shares thereof, or (c) upon liquidation or dissolution of the Applicant.

The Preference Stock is cumulative as to dividends. If dividends on the Preference Stock shall be in arrears and such arrears shall aggregate an amount equal to or in excess of eight (8) quarterly dividends upon such stock, the number of directors then constituting the Board of Directors shall be increased by one (1) and the holders of the Preference Stock voting separately as a class shall be entitled to elect the one (1) additional director.

The 7.9% Series Preference Stock is redeemable at any time upon thirty (30) days' notice at \$100 per share in cases of (a) governmental or municipal acquisition of the Applicants' facilities or common stock, or by operation of a sinking fund for retirement of shares thereof.

The shares of the 8.47% Preference Stock may be redeemed at any time, or from time to time, on or after December 1, 2001 at the option of the Company, in whole or in part, upon payment of a redemption price equal to the sum of \$100 per share plus a premium equal to the Make-Whole Premium as defined in the Articles of Incorporation.

At any time during the period of twelve (12) consecutive calendar months beginning on December 1, 2011 and ending November 30, 2012, both dates inclusive, and during each like period of twelve (12) consecutive calendar months thereafter so long as any shares of the 8.47% Series remain outstanding, the Company may at its option redeem up to and including, but not exceeding, four thousand five hundred (4,500) shares of the 8.47% Series at a redemption price equal to the sum of \$100 per share.

All then outstanding shares of the 8.47% Series shall be redeemed by the Company on December 1, 2036 at a redemption price equal to the sum of \$100 per share.

- (4) The following are the only mortgages on the property of the Applicant:

General Mortgage Indenture dated as of May 1, 1968, executed by the Applicant to The Fidelity Bank (now First Union National Bank), as Trustee, and supplemental indentures thereto dated as of December 1, 1970 (as supplemented on December 17, 1970); September 1, 1974; November 1, 1977; December 1, 1982; June 1, 1983; August 1, 1985; January 1, 1987; September 1, 1988; October 1, 1989; November 1, 1990; December 1, 1991; December 1, 1992; December 1, 1993; September 1, 1995; February 1, 1997, and June 1, 1998.

The Indenture of Mortgage provides for the issue of General Mortgage Bonds which together with all other long-term debt cannot exceed 65% of Applicant's total capitalization, and which is secured by a lien on all the property owned or thereafter acquired by the Company.

- (5) At December 31, 1999, \$67,000,000 in General Mortgage Bonds were issued and outstanding.

General Mortgage Bonds:

Principal amount authorized by Indenture:

No maximum limit of bonds fixed

Name of utility issuing bonds:

All bonds were issued by Kentucky-American Water Company

Principal amount issued and outstanding:

	<u>Issued</u>	<u>Outstanding</u>
9.37% Series	\$ 8,000,000	\$ 8,000,000
9.83% Series	4,000,000	4,000,000
8.36% Series	13,000,000	13,000,000
7.21% Series	13,000,000	13,000,000
6.96% Series	7,000,000	7,000,000
6.79% Series	5,500,000	5,500,000
7.15% Series	7,500,000	7,500,000
6.99% Series	9,000,000	9,000,000

Date of issue (nominal date):

9.37% Series	December 27, 1989
9.83% Series	November 28, 1990
8.36% Series	January 24, 1992
7.21% Series	December 29, 1992
6.96% Series	December 22, 1993
6.79% Series	September 20, 1995
7.15% Series	February 20, 1997
6.99% Series	June 17, 1998

Rate of interest:

9.37% Series	9.37%
9.83% Series	9.83%
8.36% Series	8.36%
7.21% Series	7.21%
6.96% Series	6.96%
6.79% Series	6.79%
7.15% Series	7.15%
6.99% Series	6.99%

Date of maturity:

9.37% Series	November 1, 2019
9.83% Series	November 1, 2000
8.36% Series	December 1, 2001
7.21% Series	December 1, 2002
6.96% Series	December 1, 2023
6.79% Series	September 1, 2005
7.15% Series	February 1, 2027
6.99% Series	June 1, 2028

Security: All outstanding General Mortgage Bonds are secured by the lien of the General Mortgage Indenture upon all property of the Company.

Interest paid during the 12 Months ended December 31, 1999:

9.37% Series	749,600.00
9.83% Series	393,200.00
8.36% Series	1,086,800.00
7.21% Series	937,300.00
6.96% Series	487,200.00
6.79% Series	373,450.00
7.15% Series	536,250.00
6.99% Series	629,100.00

- (6) Notes payable are payable to First Union National Bank, bear interest as listed below, and mature July 1, 2000.

<u>Payee</u>	<u>Date of Issue</u>	<u>Interest Rate*</u>	<u>12/31/99 Amount Outstanding</u>
First Union	July 1, 1999	Variable	\$5,716,000

* Interest is calculated at the LIBOR market index rate plus .425 percent.

Interest expense on outstanding notes during the period January 1, 1999 through December 31, 1999 amounted to \$24,726.

- (7) The other indebtedness of the Applicant, as shown on its Balance Sheet annexed hereto and marked "Exhibit A - Schedule 1" consists, as of December 31, 1999, of current and accrued items on which no interest is payable.

On December 28, 1973, Applicant acquired the assets of West Scott County Water District and assumed the obligations and liabilities of the District pursuant to an Agreement dated February 13, 1973.

On December 28, 1973, there were \$670,000 aggregate principal amount of the District's Water Works Revenue Bonds outstanding (bearing interest at rates of 4-1/2% and 5% per annum) which Applicant assumed the obligation and liability to pay and satisfy.

At December 31, 1999, there were \$60,000 aggregate principal amount of the District's Revenue Bonds still outstanding. Interest accrued for the twelve months ended December 31, 1999 on the District's Water Works Revenue Bonds amounted to \$3,125. The acquisition of the District by Applicant was approved by the Commission in Case No. 5795.

- (8) Dividends were paid by the Applicant during the five fiscal years as follows:

Common Stock

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Average Number of Shares</u>	<u>Amount</u>
1995	\$ 2.79	1,257,530	\$ 3,503,149
1996	2.69	1,338,448	3,600,425
1997	2.65	1,387,310	3,674,326
1998	3.13	1,496,429	4,684,532
1999	3.29	1,567,391	5,156,716

Cumulative Preferred Stock, Series A, 4-1/2%

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Average Number of Shares</u>	<u>Amount</u>
1995	4.50	440	1,980
1996	4.50	360	1,620
1997	4.50	280	1,260
1998	4.50	200	900
1999	4.50	120	540

Cumulative Preferred Stock, Series B, 5-3/4%

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Average Number of Shares</u>	<u>Amount</u>
1995	5.75	4,700	27,025
1996	5.75	4,700	27,025
1997	5.75	4,700	27,025
1998	5.75	4,700	27,025
1999	5.75	4,700	27,025

Cumulative Preferred Stock, Series C, 5-1/2%

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Average Number of Shares</u>	<u>Amount</u>
1995	\$ 5.50	5,000	\$ 27,500
1996	5.50	5,000	27,500
1997	5.50	5,000	27,500
1998	5.50	5,000	27,500
1999	5.50	5,000	27,500

Cumulative Preferred Stock, Series D, 5%

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Average Number of Shares</u>	<u>Amount</u>
1995	\$ 5.00	6,000	\$ 30,000
1996	5.00	6,000	30,000
1997	5.00	6,000	30,000
1998	5.00	6,000	30,000
1999	5.00	6,000	30,000

Preference Stock, 7.9% Series

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Average Number of Shares</u>	<u>Amount</u>
1995	7.90	11,400	90,060
1996	7.90	11,000	86,900
1997	7.90	10,600	83,740
1998	7.90	10,200	80,580
1999	7.90	9,800	77,420

Preference Stock, 8.47% Series

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Average Number of Shares</u>	<u>Amount</u>
1995	\$ 8.47	45,000	\$ 381,150
1996	8.47	45,000	381,150
1997	8.47	45,000	381,150
1998	8.47	45,000	381,150
1999	8.47	45,000	381,150

- (9) Applicant's Balance Sheet as of December 31, 1999, and a statement of Applicant's earnings and expenses for the twelve months ended on such date are shown on Exhibit A, Schedule 1 and Schedule 2, respectively, which are annexed hereto.

**Kentucky American Water Company
Comparative Balance Sheet
for the Periods Indicated**

	<u>December 1999</u>	<u>December 1998</u>
Assets		
Utility Plant	\$ 215,555,845	\$ 201,190,319
Construction Work in Progress	6,773,582	8,400,236
Accumulated Depreciation	(38,597,521)	(34,971,660)
Utility Plant Acquisition Adjustments	184,568	172,950
Net Utility Plant	<u>183,916,474</u>	<u>174,791,845</u>
Non Utility Property	<u>249,738</u>	<u>242,300</u>
Other Investments	<u>-</u>	<u>-</u>
Current Assets		
Cash and Cash Equivalents	507,958	1,391,737
Temporary investments-at cost plus accrued interest	-	-
Customer Accounts Receivable	1,415,232	1,402,646
Allowance for uncollectible accounts	(50,130)	(53,633)
Unbilled Revenues	1,901,878	1,794,869
Federal Income tax due from associated companies	-	-
Miscellaneous receivables	827,682	379,110
Materials and supplies- at average cost	523,801	514,367
Other	<u>328,048</u>	<u>376,986</u>
Total Current Assets	<u>5,454,469</u>	<u>5,806,082</u>
Deferred debits		
Debt and preferred stock expense	413,830	457,205
Expense of rate proceedings	18,959	114,728
Preliminary survey and investigation charges	4,154,302	567,483
Reg asset-inc tax recoverable thru rates	4,222,415	3,882,100
Other	<u>5,169,808</u>	<u>4,092,349</u>
Total Deferred Debits	<u>13,979,314</u>	<u>9,113,865</u>
Total Assets	<u>\$ 203,599,995</u>	<u>\$ 189,954,092</u>
Capital and Liabilities		
Common Stock	\$ 36,568,777	\$ 36,568,777
Paid-in capital	21,329	21,329
Retained Earnings	<u>21,686,245</u>	<u>20,252,174</u>
Total Common Equity	<u>58,276,351</u>	<u>56,842,280</u>
Preferred Stock	7,038,000	7,086,000
Long Term Debt	<u>63,000,000</u>	<u>67,000,000</u>
Total Capitalization	<u>128,314,351</u>	<u>130,928,280</u>
Current Liabilities		
Bank debt-pending issuance of securities	5,716,000	-
Current portion of long term debt	4,000,000	-
Accounts Payable	1,239,712	531,401
Taxes accrued	174,961	239,644
Interest accrued	831,845	807,976
Customer deposits	44,062	45,395
Dividends declared	95,287	115,218
Other	<u>3,082,466</u>	<u>2,593,851</u>
Total Current Liabilities	<u>15,184,333</u>	<u>4,333,485</u>
Deferred Credits		
Customer advances for construction	9,678,648	8,144,815
Deferred income taxes	23,593,764	21,708,072
Deferred investment tax credits	1,896,067	1,980,864
Reg liab-inc tax refundable thru rates	-	-
Other	<u>2,228,098</u>	<u>2,004,923</u>
Total Deferred Credits	<u>37,396,577</u>	<u>33,838,674</u>
Contributions in aid of construction	<u>22,704,734</u>	<u>20,853,653</u>
Total Capital and Liabilities	<u>\$ 203,599,995</u>	<u>\$ 189,954,092</u>

Kentucky American Water Company
Comparative Statement of Income and Retained Earnings
Year to Date

	<u>December 1999</u>	<u>December 1998</u>
Operating Revenues	<u>\$ 39,103,841</u>	<u>\$ 37,744,117</u>
Operating Expenses		
Operation and maintenance	16,261,642	15,480,650
Depreciation and amortization	4,816,521	4,450,860
Taxes on Operating Income		
General	1,710,736	1,577,514
State	1,017,498	965,000
Federal	3,818,831	3,599,296
Total Operating Expenses	<u>27,625,228</u>	<u>26,073,320</u>
Utility Operating Income	<u>11,478,613</u>	<u>11,670,797</u>
Other Income		
Allowance for funds used during construction	720,174	393,727
Miscellaneous other income	56,340	163,200
Gain (loss) on sale of property	5,353	-
Total Income	<u>12,260,480</u>	<u>12,227,724</u>
Other Deductions		
Amortization of preferred stock expense	1,685	1,685
Amortization of utility plant adjustments	-	-
Miscellaneous other deductions	356,104	273,627
Taxes on other Deductions		
General	-	-
State	(23,643)	(7,809)
Federal	(92,028)	(30,394)
Total Other Deductions, Net of Taxes	<u>242,118</u>	<u>237,109</u>
Income before Interest Charges	<u>12,018,362</u>	<u>11,990,615</u>
Interest Charges		
Interest on long term debt	5,192,900	5,205,005
Amortization of debt expense	41,985	44,175
Interest on bank debt	24,697	86,501
Other interest	5,544	6,004
Allowance for funds used during construction-debt	(381,188)	(209,164)
Total Interest Charges	<u>4,883,938</u>	<u>5,132,521</u>
Net Income	<u>\$ 7,134,424</u>	<u>\$ 6,858,094</u>
Net Income	<u>\$ 7,134,424</u>	<u>\$ 6,858,094</u>
Retained Earnings at Beginning of Period	<u>20,252,174</u>	<u>18,625,768</u>
	<u>27,386,598</u>	<u>25,483,862</u>
Dividends		
Preferred stock	543,637	547,156
Common stock	5,156,716	4,684,532
	<u>5,700,353</u>	<u>5,231,688</u>
Retained Earnings at End of Period	<u>\$ 21,686,245</u>	<u>\$ 20,252,174</u>

EXHIBIT 2

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of April ___, 2000, by and between [INSERT NAME OF BORROWER] (the "Company") and American Water Works Financing Corporation ("AWWFC").

B A C K G R O U N D

The Company currently performs its own financial services.

However, the Company has determined that it can obtain these services more efficiently through the consolidation of certain necessary management and staff functions with those performed for other entities that may enter into agreement with AWWFC substantially similar to this one ("Co-Participants").

AWWFC is dedicated to performing such consolidated functions.

Accordingly, the parties have determined to enter into this Agreement for the provision of financial services by AWWFC to the Company and for the proper determination and allocation of the costs of providing such services.

Therefore, the parties agree as follows:

A G R E E M E N T

1. Services. AWWFC will provide, either directly or through arrangements with third parties for the benefit of the Company, such financial services as the Company and AWWFC may from time to time agree, including but not limited to those more fully described in Appendix I attached to this Agreement.

2. Costs. In consideration of the provision of the services contemplated by paragraph 1, the Company agrees to pay AWWFC the costs, including appropriate overhead, incurred by AWWFC in providing those services, in the same manner and with the same allocations as provided in the agreement dated _____, between the Company and American Water Works Service Company, Inc.

3. Statements. AWWFC will prepare and deliver to the Company monthly statements of the services provided by AWWFC and amounts payable to AWWFC, giving effect to all the provisions of this Agreement. The Company shall pay the net amount shown on its statement within thirty (30) days after the billing date.

4. Inspection. Upon reasonable notice, AWWFC will make available to the Company for its inspection AWWFC's books, records, bills, accounts and any other documents which describe or support the costs allocated to the Company under this Agreement.

5. Obligations Not Joint. AWWFC and the Company expressly agree: (a) that the obligations of the Company and each Co-Participant to AWWFC are several and not joint; (b) that the Company will not be responsible to any Co-Participant, to AWWFC or to any assignee or creditor of AWWFC for any payment in excess of payments due by the Company to AWWFC under this Agreement or a Note in the form attached to this Agreement; and (c) that no Co-Participant will be responsible to the Company, to any other Co-Participant, to AWWFC or to any assignee or creditor of AWWFC for any payment in excess of payments due by that Co-Participant to AWWFC under any agreement substantially similar to this Agreement or under any Note attached to that other agreement. AWWFC covenants and agrees that it will require, as a condition to its entering into any such other agreement with a Co-Participant, that such other agreement contains the same provision as that contained in the immediately preceding sentence.

6. Notes. The Company's borrowings under this Agreement will be evidenced by one or more promissory note in the form of Exhibit A or Exhibit B attached to this Agreement.

7. Non-Exclusivity. Nothing in this Agreement prohibits or restricts the Company from borrowing from third parties, or obtaining services described in this Agreement from third parties, whenever and on whatever terms it deems appropriate.

8. Effectiveness. This Agreement shall be effective as of May 30, 2000, provided that, if prior approval by the regulatory commission of any jurisdiction is required, this Agreement shall not be effective as to the Company unless and until that requirement has been met. Unless and until this Agreement becomes effective as to the Company, it shall not be entitled to the benefits of, nor shall it have any obligation under, this Agreement. This Agreement may be amended or rescinded only by written instrument signed by the Company and AWWFC.

9. Termination. The Company may terminate its participation in this Agreement by giving ten (10) days prior written notice of such termination to AWWFC; and (b) AWWFC may terminate this Agreement by giving ninety (90) days prior written notice of such termination to the Company. Termination of this Agreement will not affect: (a) the Company's obligations under any Promissory Notes; (b) any party's obligations with respect to any amounts owing under Sections 2 and 3 of this Agreement (including such amounts attributable to obligations of any terminating party under any Promissory Notes that remain outstanding after this Agreement is terminated as to that party); or (c) AWWFC's obligations to repay any investments made by a Company pursuant to Appendix I.

10. Copies. This Agreement may be executed by the parties in one or more copies and each executed copy shall be considered an original.

In witness of the foregoing, each of the Company and AWWFC has caused its respective corporate seal to be affixed to this Agreement and has caused this Agreement to be signed on its behalf by its duly authorized officers.

ATTEST:

[NAME OF COMPANY]

By:
Title:

ATTEST:

By:
Title:

By:
Title:

AMERICAN WATER WORKS FINANCING
CORPORATION

- By:
Title:

APPENDIX I

DESCRIPTION OF FINANCIAL SERVICES

Set forth below is a list of the services which AWWFC agrees to provide to the Company upon its request pursuant to the Agreement to which this Appendix is attached.

1. Short-Term Loans. AWWFC will provide Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWWFC, each substantially in the form attached to this Agreement as Exhibit A.
2. Long-Term Borrowings. AWWFC will provide loans other than Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWWFC, each substantially in the form attached hereto as Exhibit B.
3. Cash Management. Cash not required by the Company to pay its daily disbursements or to pay when due the principal of and interest on, the Company's borrowings from AWWFC other than Short-Term Loans will be used by AWWFC first to reduce the outstanding principal balance of the Company's Short-Term Loans owing to AWWFC and any excess will be deemed to be invested with AWWFC and will earn a daily rate of interest that is equal to the interest income earned by AWWFC on those funds. Upon the request of that Company, AWWFC shall execute one or more promissory notes in favor of the Company, in form and substance substantially similar to the Promissory Note attached as Exhibit A to the Agreement as evidence of such investment.

EXHIBIT A
PROMISSORY NOTE
FOR SHORT-TERM LOANS

\$

, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay ON DEMAND to the order of American Water Works Financing Corporation, a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$_____) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in one or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full. Interest will be charged on the unpaid outstanding principal balance of this Note at a rate per annum equal to Lender's actual cost of funds to make such loan, such rate to change as Lender's actual cost of funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time, exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part

of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated April __, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day
and year first written above.

[BORROWER]

By:

- Title:

EXHIBIT B
PROMISSORY NOTE
FOR LONG-TERM BORROWINGS

\$

, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay to the order of American Water Works Financing Corporation, a Delaware corporation ("Lender"), in same day funds at its offices at _____ or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$ _____), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period

of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated April __, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day
and year first written above.

[BORROWER]

By:

- Title:

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